

LendIt Fintech



Welcome to the Fintech One-on-One Podcast, Episode No. 334. This is your host, Peter Renton, Chairman and Co-Founder of LendIt Fintech.

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Before we start this episode, I want to tell you about a brand new event from LendIt Fintech. Fintech Nexus, the Dealmaker Summit, will be the first major in-person fintech event of the past 18 months. A hand-curated audience of venture capitalists, bankers, fintechs and debt investors will be meeting face-to-face at an event 100%-focused on doing deals. It will be happening in Miami on September 1st and 2nd. You can apply to join and find out more at lendit.com

Peter Renton: Today on the show, I'm delighted to welcome Bob Cortright, he is the CEO and Founder of DriveWealth. Now, DriveWealth is a super interesting company, they are really one of the pioneers of the embedded finance space, they have created the ability for any company to embed stock trading, fractional stock trading into their app, but there's so much more than that which we actually get into in some depth on the show.

Bob shares how they were the first company to ever introduce fractional stock trading and what that meant for his company, we talk about how the technology works, some of the big names that are actually using DriveWealth today to enable stock trading and we also talk about how brands, non-financial brands, should be really thinking about this opportunity. We talk about crypto, of course, and Bob gives some hints on what the vision is for DriveWealth and how they're moving beyond stock trading. It was a fascinating interview, hope you enjoy the show.

Welcome to the podcast, Bob!

Bob Cortright: Thank you, Peter, a pleasure to be here.

Peter: Okay. So, let's get started by giving the listeners a little bit of background about yourself, you've got a pretty interesting career when I looked at your LinkedIn profile so why don't you just touch on some of the highlights.

Bob: I started actually in the FX business, a company called Rothschild, NM Rothschild back in the early 80s, joined an FX arbitrage so I had a long experience working in risk management trading, portfolio management, worked in a hedge fund for a number of years, but after about 15/20 years in the business, I decided that there was an opportunity to go on my own and build a retail FX platform. And that was back in late 1999 when Clinton signed the Financial Modernization Act which allowed for retail FX and as you know back then, there was a big rise in building retail FX trading platforms around the world for retail traders, first time they really had real access on a platform to trade retail currencies.

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So, you know, started a company called FX Solutions where in the light of that experience started really early 2000 throughout the really crazy times of FX, learned a lot about how to build a business and one of the things we learned there was that the real power of aggregated retail which obviously plays into when we started DriveWealth in 2012. We saw a lot of things around the world in terms of the appetite for retail FX trading by retail investors, but they didn't really have a really good access, affordable access, to the most premiere market in the world that was US equities and obviously as you know, the technology, the NASDAQ and what's going on in the technology sector and a lot of these other e-commerce firms around the world.

I mean, there was a huge boom in value in these tech companies so we wanted to obviously...we built DriveWealth to emulate some of the things we did at FX Solutions in terms of giving people affordable access around the world. What we realized in that boom was it was really the global infrastructure set up in brokerages, they called it, was not really suitable for digital advice or digital experience on a phone or digital device. So, that's kind of how we got to where we are today in terms of building out a really viable business is really re-focus on the infrastructure side.

Peter: Right.

Bob: I'll go back a little bit here, Peter, I don't want to take too much time in the beginning, but in the late 2008/2009 when we got into the advent of wealth management or Robo, as people call it today, some of these guys like Betterment and WealthFront coming around and then the big boom with Robinhood and direct trading in equities, zero commission trading and then obviously then we had the savings boom with the guys like Acorns and Stash and things like that, those were great B2C products, but to really be viable for all the businesses all the time, we understood that the infrastructure had to be rebuilt as well.

Peter: Right. Tell us a little bit about the timing then, was it 2012, was that when you started DriveWealth?

Bob: Really late 2012. Really, the first couple of years of DriveWealth was working with the regulators in terms of getting the right license. So, think about this back then when we went to the regulators and we wanted it to be global retail, we wanted just the retail market globally, give them access, that was part of the whole democratization rage going back democratizing, whether it was banking or lending or anything else, democratizing the retail markets so anybody could participate. But also, one of the things, you know, we wanted to do retail, we wanted to work through the social networks which was in their minds they were thinking about a Facebook and things like that which I think today is still possible. I mean, a lot of these firms are entering into the financial services business, you hear the term all the time that everyone's a fintech company.

Peter: Right.

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Bob: You know, that wasn't the thought by the regulators back in in 2012/2013/2014, but the primarily goal for me then too was to get the ability like FX and like crypto today is to fractionalize investing in equities, right, because we saw the trend of large-priced stocks. The three cornerstones of investing in my mind, the compound interest, diversification through your portfolio and dollar cost averaging, we wanted to make it affordable for anybody, with any amount of money to be able to do that and the only way to do that was to fractionalize securities.

That took about two and a half years when I first brought it up to the regulators in 2013, you know, if it wasn't retail which was the primary goal to protect retail and global retail was always the worst carrier because they had no KYC concerns or retail suitability and the last thing was, you know, what do you mean by social networks and that was really the advent of these great digital wallets, these ecosystems around these big applications around financial services that we really saw started in China back in the early days of Tencent, the JB Dot Com and such.

Peter: Right. It feels like you were early, you might have been a little too early, it seems in some ways, but obviously you're still around so you've survived the early days, how long did it take to get your first paying client?

Bob: You know, I'm always early, it felt like that in the FX space, it felt like that in the risk management space, in a lot of things that we're doing. People laugh, you know, yeah, you have to survive those first couple of years and being early is not the best way to do that. (Peter laughs) I really had, based on my past businesses, not only FX Solutions, but Financial Labs and the great team I had there, we really had a conviction to the fact that the whole infrastructure stack had to be rebuilt. Our commitment to it was pretty high, we had a lot of experience building businesses so we did it in a pretty lean way, we had a lot of experienced people not only in the brokerage space and I love to talk about embedded finance and what I mean is the difference between brokerage.

Brokerage is really just the underlying regulatory product, but we really stuck to our conviction that the equity space, interesting enough, was so distorted in my view versus what we were doing in the FX space in recreating that for retail that it was obvious to me that that had to be transformed, right. So, the idea that has stuck, that basically had so many different parts to it, you had.....introducing brokerage you had basically firms like Broadridge doing stock, you know, AML, KYC and taxing and yet clearing firms and execution firms, the custodians, I mean, everybody had their hand in the stack and was not really conducive to a formal retail experience.

And I have to say, one of the great things about this is building an infrastructure, we have so many great partners now around the world, they are so heavily focused on that user experience

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which is tremendous. I give kudos to them because they're the ones building the experience for the customer and we're just supplying the plumbing to build these cool products.

Peter: So, can you just describe the plumbing, what is it that you're actually doing, how does your technology work?

Bob: Really, the underlying product is brokerage, but it's the way we're basically building out the APIs in a very unique way to our customers, you know, really customize that experience on the front side, their user experience side, they're the ones that fill the application. So, I'd say we have probably close to 150 or more different APIs today just as a lot of things involved in brokerage, right, there's a lot of regulatory requirements. I mean, I love some of the ideas that the fintechs come up with, but from a regulatory standpoint, it's just not a viable way to do business, we can't do some of these things so we have to be very creative in the way we build.

One, think about money movement, right, how do you move money from a Real account in Brazil to a US dollar account to buy Apple. There's a lot of things that go into actually executing a trade, you have to convert the currency trading, securities has to be done in US dollars if it's a US security so you have to do that in a very seamless way so the customer can literally onboard their account, register as and become a brokerage account, right, and do that in a way so seamless so the customer doesn't feel the pain of going through all that process so we build all these things through API.

Our big goals here now in 2022 is to make that as seamless as possible to create the API layer that's very digestible for a partner, but we do a lot of work on the backside through the APIs and they create a lot of different functionalities that the customer can experience in a seamless way, it makes it painless for the partners as well.

Peter: Right, right. And so, I just want to touch on fractional trading, you mentioned it. You know, you look at some of the most popular stocks in the world there and some of them are trading for thousands of dollars a share, how important was fractional trading really to sort of getting you guys some momentum and when did you actually enable fractional trading for your customers?

Bob: We've pioneered fractional trading, we've got the licenses back in 2013 to be the first real-time fractional trading platform in the world. The reason we did that was because of my FX experience, I knew that somebody with \$100 might want to buy Berkshire Hathaway A, for instance, or Amazon and like I said before, the pillars of real successful investing is diversification, dollar cost averaging. If you want to put \$50 to work every two weeks when you get paid, we want to put that in a diversified portfolio, you need fractional trading to do that.

We saw very early at FX Solutions, people could buy the dollars with a yen, right, and that was incredibly successful. I mean, back in those days as the retail platforms developed an FX, it was the exchanges that were offering all these currency contracts, as you know, were quite big for

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quite large contracts and it took a lot of risk if you had to buy one contract of yen or Swiss francs or whatever. We saw that same theory with equities, right, if you want to buy a good portfolio of securities and you only have \$50 per month to invest, fractionalization was critical. We don't really call it fractionalization, that's just the mechanical process, it's really the ability to do trading right, and when you go back to what you think of as financial services, most people think about the money they have to invest, they don't think in how many shares of Amazon can I buy, I can't even buy one so I want to start with \$100.

You know, that's the interesting thing, I don't want to dwell on it too much, but that's the big transformation in the world of equities, right. All the other businesses even when you start about crypto, it's decimal points, you know, it's decimalized, we believe in that. The whole idea is now that the equities business with zero commission is what Robinhood did and thinking about that. The equities business has become a notional spread-capture business just like every other business. It's no longer shared commission basis business because people aren't in-charge of commissions anymore, really it's a struggle to do that.

Peter: I imagine, I would have been a real driving force of your business too, right. It wasn't that long ago when you couldn't trade shares for less than \$7 or \$5, not that long ago.

Bob: It's not that long ago. A couple of years ago, they were still advertising, you know, cost of \$4.95 a trade and I felt that was a big revolution and all of a sudden, zero and they finally capitulated, it took them a number of years to do it. And then you saw, quite quickly after that, the event of fractionalization where people started collecting slices of whatever else. We've been doing this from day one understanding that to really engage some investors and I really think it's key behind financial literacy, why we've been talking about embedded finance for five/six years now.

The reason embedded finance is different than brokerages...brokerage is basically when someone decides they have enough affluence and they want to go out and want to start investing in a different way or open a brokerage account which is very intimidating, not everybody feels comfortable that they have the knowledge to do it. Embedded finance is much different, right, embedded finance, you're actually participating in it with small amounts of money, taking small risk based even on your behavior at times. Sometimes, it's not even your own money, it's rewards you're getting like stock bets or roundups, things you're doing in your consumer behavior that translates into investing behavior, that's why it's so powerful, that's why embedded finance I think in its early days has been done all over the world, right, in terms of the ways they offer things to their customer base.

Peter: Yeah. So, how much do you focus inside the US with enabling your services there versus outside the US?

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Bob: We don't discriminate, we work with people that really want to offer really cool products, investing products based on their client base and improve their financial situation, their life financial situation. And the beautiful thing about the way these APIs have developed and evolved over the years is it allows anybody in Latin America or in Asia or even Europe or here in the States to build a product just the same, right, they're just utilizing the same APIs. So, if a large digital wallet wants to build something out of Latin America, it's no different than what Revolut does in Europe, it's the same process, they just put their own customized twist on what they want to offer to the customer.

Peter: So, then say I'm running a fintech, it could be in the US, it could be Brazil or whatever and there's been demand for stock trading from my customers, I want to offer a stock trading solution, what's the timeline, what's involved from start to finish and how do you enable them to do that?

Bob: Yes. So, let me just go back for a second on what you said before, I mean, the point you are making is really it's the regulatory environment that is the real hurdle. Every country has some, you know, jurisdiction or it has some different way so that you have to understand very well. We've been doing it obviously for a long time now, going on seven/eight years, where we basically are spending a lot of legal time in these countries understanding the legal environment so that is the timeframe, that's what really matters is how long a time to your question, right, it's not technology. The integration period, I mean, we've had guys who are sophisticated, put a team that can do it and launch in 30 days, right, launch a product in 30 days.

Really, what the constraint is is really understanding the regulatory environment and what they want to do, what type of products they want to offer and make sure that it's compliant with the local jurisdiction, right. For instance, we can't just walk into a country and, you know, obviously people see this in real-time and solicit customers directly, you just can't do that, right. I mean, you've got to be locally registered for different things so we work with partners that are locally regulated, abide by the local jurisdiction of the rules.

We just launched Toss in South Korea, technology-wise, they are very sophisticated, had a great product and great wallet and doing some really cool things with that, but it was the regulatory issues that we had to get through to KSB and things like that. That's what makes it difficult, that's what takes the time and that's where the real knowledge comes in. Operating in the FX business which is a global business, as you know, moving monies from cross borders is not always as simple as it sounds, it's the same with regulatory in terms of people investing in securities. Some countries don't even allow people to invest in securities outside the country so we're getting through all of that and that's the big hurdle in terms of timing.

Peter: So, have you found like from the US regulators a positive feedback coming from them because I see what you're doing is attracting capital into this country, from all around the world. Obviously, the stock exchanges here are the largest in the world and a lot of people want to own

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the companies that trade here. And so, I'm just curious about that because you're basically bringing money into the country, is that something that the regulators appreciate?

Bob: Thanks for mentioning that, Peter, they don't really see that in the sense that we're bringing good capital, these companies that are doing well in these countries and people want to consume, they want to own, right, and it's a really powerful thing. One of the things we do with regulators outside the country and in different parts of the world, we explain to them, the people don't leave the country, it's the money that leaves the country and they are concerned about that sometimes. Look at China right now, you know, forced currency movements and stuff, they're kind of cracking down on people investing outside which I think is a foolish game, right, because the people aren't leaving, they're just looking for a better return on their money, right.

If you don't let people do that, if you don't let people participate in the real growth areas of the world like the tech world or e-commerce world which has some really great successful companies, I mean what, Apple just hit \$3 Trillion in market value. I mean, you want to be investing in those great companies, right, so you're not going to keep up if you're sitting in a country....for instance, like in Africa, I mean, they've really recognized that their citizens investing outside and other parts of the world investing are getting returns on their capital that they're not getting internally in their own local country. The money comes back into the community, gets spent in the local community, they start businesses in the local community, they grow confidence.

From a financial standpoint, people like Chipper Cash, these companies are doing amazing things in their local geographies in Africa. It's a great point that you make that having the ability...I think COVID did this too, right, and then this whole idea of COVID, people shut down their borders, their first reaction is shut down their borders, it actually had the opposite effect in financial services, it globalized financial services as everybody was chasing me on that. When the government started putting a lot of money in the streets, people said how can I get a return of my money, how do I protect my currency or how do I get, you know, diversification out of my currency. The regulators here understand that value.

Peter: They do.

Bob: You know, they're promoting the US capital markets, best companies in the world, to your point, and the more capital, the more things we can do. I think that countries that really try to shut down the border and cross border investment is not going to end well.

Peter: Right, right. Can you give us some sort of metrics on the scale, how much flows through your platform? What are some of the metrics you can share?

Bob: We're not an AUM business like.....

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Peter: Right. sure.

Bob: You see guys like Schwab and TD merging, you see Morgan Stanley buying E*TRADE, to me, these weren't technology advances, these were based on consolidation of costs and growing the rest to make more money, right. Our business is actually transactional which is different than most brokerage businesses and where we're going today, right, they're more looking at asset management and the things they can do for the asset management side.

We are looking really more at embedded finance so we have customers literally do 40,000/50,000 transactions a day on their own, I mean, and these are maybe anywhere from \$5 trades to \$230. I mean, it's not a typical thing, but at the opening of the day we may have over a million orders lined up at the opening, we have kind of replaced the stock exchange in the way we created the ability to get ready to open up the trade and now we got into, you know, pre-market open, pre-market trading or a post-market trading. But, yeah, literally, our bigger customers do tens of thousands of transactions a day.

Peter: Wow, okay. So then, can you tell us some of the names that maybe we recognize that you're working with today?

Bob: Let me first preface that by saying, I don't favor any one or the other because the appreciation I have for our partners and the amazing things in this digital wallet ecosystems are what people are building, these ecosystems around retail financial services are just amazing. They're producing the experience, right, they've built a brand, they're providing the user experience, we're just providing the plumbing to do these things on the wealth management and investment side. Some do a little bit more trading, but not most, most of them are financial literacy-oriented investing, portfolio management, you know, it runs the gamut anywhere from someone like a Revolut in Europe who's a very active customer, got a really great base and done a really great job to someone like MoneyLion here in the United States doing a more banking and wealth management for their customers.

And then you have someone like Stake in Australia who's doing more day trading, more like a Robinhood-type environment, right, more sophisticated, bigger trading sizes, things like that and they're also, you know, could be a credit union that's offering their members obviously the ability to invest in a very, very simple and obviously, like you said, with fractional trading in a very basic way by just putting \$50/\$100 a month away into a portfolio so runs the gamut, but our partners are doing a tremendous job building these experiences.

Peter: What about like big brands that not necessarily may be outside of finance, how should they be thinking about DriveWealth's offering?

Bob: They are. The idea here is back to the embedded finance idea. It's not that these companies want to become brokerage companies, they don't want to be brokerages, right. What

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they want to do is offer their customers, their valuable loyal clients a better use of their capital and grow their capital. So, one, they can spend more money on their platforms or they can have a better, you know, life in terms of financially and they become more financially literate by just experiencing it, by doing it, right. So, what they're really looking at is they're really looking at the embedded finance trend offering things like rewards stocks.

If you even think about the gig economy, right, having a wallet for your customer, right, or your gig partner, you can provide them with rewards, you can provide them with bonuses, you can provide them with stock plans, HSA-health saving accounts are exploding in the US, we're doing a lot of cool stuff with some great partners in the HSA space. So, providing your loyal customers access to financial products they haven't had before them at very affordable rates, right, just promotes their affluence, lifting more boats really because they have more disposable income because of the way they can invest now at a much smaller cost, for sure.

Peter: Right, right. I've also seen things like...I think there's a couple of fintechs that are doing this where you might buy a burrito at Chipotle and you can get like 5 cents or 10 cents worth of stock.

Bob: You're on to it, Peter, right. You know, it's funny some of these other companies with portfolios, I think, you know, they had a contest and said okay, build your model portfolio and it was a bunch of kids, like 12-year old kids, that won the whole thing in terms of return over the course of the year because all they put in the portfolio are the things that all their friends were consuming.

That's a genius idea, right, so buy what you know is what Peter Lynch used to say, buy what you understand, is what Warren Buffet used to say. Those are performing really well so you go and build yourself a Starbucks and you swipe for latte and you get 5 cents or 25 cents of latte stock, of Starbucks stock. I mean, that's where we're going, right, I mean, that promotes the brands, that promotes what you're consuming so that's consumer behavior related to investment behavior and these are people that open up a brokerage account through these ecosystems.

They never thought about, I'm going to fill out the paperwork and go to Schwab, right, they're basically loyal customers of someone who has a wallet and now they're getting this added benefit of okay, it takes a couple of extra clicks because they already have an account, right. So, it only takes a couple of extra things to verify your brokerage account, it's opened up within a minute or two and now, they're getting benefits on, like you said, stock rewards or rollups on their purchases and things like that. Literally, we can build a portfolio of 30/40 stocks with a dollar so it's, you know, very powerful over time, it's very engaging, by the way. Hey, how am I doing this week, what did I get, what did I earn and you watch this nest egg grow in a way that you would never have done in a brokerage account.

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Peter: Right. I want to talk about the huge growth of retail in 2021. We started off the year with this little meme stock craze like GameStop and AMC and those sort of stocks, I'd love to get your perspective on that because it felt like, for the first time, individual stock investing was on the front page not just of business journals but of just regular newspapers. What did that do for your business and what's your perspective on it?

Bob: We're not really a day trading shop, we're not, you know, an active trading shop. We really....our partners are really looking for investments and wealth management products and building portfolios, like you said, rewards over time, that embedded finance versus brokerage mentality, but it brought awareness, for sure. I mean, just to give you an idea, you know, we started 2021 with about 8 million accounts, now we have close to 17 million accounts today, projecting probably to double that this year with the type of partners that we're bringing on, but it's created a lot of awareness and people are much more curious about it for a couple of reasons.

One, I mean, you had the Reddit phenomenon, you know, that really benefited the Robinhoods and the brokerage type, you know, the Webulls, those guys. Our partners are much more focused on the wealth creation for their clients, right, so obviously people understand that it's happening, they understand that they can get involved so the awareness factor has gone way up, but I think now it's becoming really important and we're seeing it evolve is the financial literacy aspect. People are now saying because of the phenomenon, right, we need to better educate people and I think the same thing is when we look and we're about to enter the crypto space, we're looking, you know, as a model our equities business after what we're going to do in crypto and we think education is such a critical part of that, right.

You know, it's interesting to speculate and spend a few dollars and buying a cryptocurrency and seeing what happens, but when you start to think about long term benefits in your investments and your portfolio that's a different thing, you don't need to get literally around financial diversification, risk, those types of things. So, there are so many partners that we're working with now on the crypto side, really understand that they want to make sure that the customers get that type of education and literacy before they jump in.

Peter: Yeah, that's really good points.

Bob: Just to make sure that it balances out, you know, their whole financial life.

Peter: Right. I want to talk about crypto just for a second. We're almost out of time, but your business, from what I understand, obviously it's based on equities trading in the US stock market, make that available to anybody, but crypto, obviously it's 24/7, it's fractionalized down to, I don't know, 8/10 decimal places, do you have plans to incorporate crypto trading into what you're doing or how are you thinking about crypto?

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Bob: We're not really....in the sense, we're not an equities platform, right, we're a platform for retail investment so let's start right there, right.

Peter: Okay.

Bob: We're building an infrastructural platform that allows people to ...from a retail compliant suitability standpoint, invest in anything that they want to consume, right. The funny thing is, like I mentioned before, you need to go from fiat to buy a hard asset or security, right, and then people want to take some of those hard assets and convert them into cryptocurrencies. Cryptocurrencies, in my opinion, aren't assets by themselves, right, they're just like fiat, but they're in a virtual world, they're a way to a means of exchange for goods and then you've got a virtual asset. I think it's going to be an amazing place to be so what our drive or ambition is really to be the retail platform in the exchange of things.

Any retail asset that you want to consume can be done through our platform, we want to bridge the real hard asset world with the virtual world and let people invest where they want. Obviously, that's where literacy, financial literacy comes in, I mean, do you buy what Board Gorillas or whatever they (both laugh) you can consume or do you have some mixture of some Apple and some Tesla stuff in there, you want to own some Bitcoin, whatever, but my point is that whatever, you know, our partners in the retail industry will want to consume from an investment standpoint, we want to provide.

We're really looking at our international experience and now international securities to give people some more diversified, you know, around the world, but you can do that through our ETF market very easily so we're looking at the major countries in terms of their exchanges and what they do there just around that, but we want to be in lots of exchange, the things that lots of exchange....we not saying we're just equities. We're going to be in NFTs and we're going....we already do, we work with Temple and Rally Road in alternative investments. You can buy a piece of a Ferrari, you can buy a piece of a baseball card collectibles on our platform. Our idea is whatever the retail investment world wants to invest in, we want to provide it, but we want to do it in a very frictionless, fractional way.

Peter: Okay. Well, we'll have to leave it there, Bob, it's really been interesting chatting, thank you so much for coming on the show and best of luck in 2022.

Bob: Peter, thanks for having me.

Peter: Okay, see you.

Bob: Bye.

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Peter: You know, what an interesting story that is, the DriveWealth story. I mean, back in 2012, fintech was barely a term, let alone embedded finance and they've really become the world leader in embedded finance for stock trading. It was really interesting there to hear Bob talk about they're moving into other areas, you know, they've done such a great job in the stock trading. You can be sitting in dozens of countries around the world now with your smart phone and you can invest in US stocks just like you can do it here in the US. That's a very complicated process as Bob shared some of that, what a great thing to do for this country, for the financial system in general where we have capital being able to flow across borders and go to where you earn decent return.

Anyway on that note, I will sign off. I very much appreciate you listening and I'll catch you next time. Bye.

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Before we go, I want to remind you about a brand new event from LendIt Fintech. Fintech Nexus, the Dealmaker Summit, will be the first major in-person fintech event of the past 18 months. A hand-curated audience of venture capitalists, bankers, fintechs and debt investors will be meeting face-to-face at an event 100%-focused on doing deals. It will be happening in Miami on September 1st and 2nd. You can apply to join and find out more at lendit.com